

## Explanatory note on transition arrangements

1. This document explains each of the funding floors that form part of the transitional arrangements. Phasing in of reform is explained in the [Consultation Document](#) and [Fair Funding Allocation Calculator](#).

### INCOME PROTECTION

#### Eligibility for Income Protection Floor

2. Eligibility for 100% income protection is determined as:
  - Any Shire District with a protection metric of less than or equal to 15%
  - Any single or upper tier local authority with a protection metric of less than or equal to 15% or council tax levels equal to or above the average.
3. Eligibility for 95% income protection is determined as:
  - Any Shire District with a protection metric of greater than 15%
  - Any single or upper tier local authority with a protection metric of greater than 15% and lower than average council tax levels.
4. For the purposes of determining eligibility for income protection, upper tier and single tier authorities shall include Shire Counties, Metropolitan Districts, Unitary Authorities and London Boroughs.
5. Eligibility for different income protection is calculated by comparing local authorities' pre-reform and post-reform income. The protection metric shall be determined by comparing an authority's 2025-26 income to their 2025-26 income had the Fair Funding Share applied:

$$\text{Protection metric} = \frac{(\text{Income}_{2025-26}^{\text{pre-reform}} - \text{Income}_{2025-26}^{\text{post-reform}})}{\text{Income}_{2025-26}^{\text{pre-reform}}}$$

6. Local authority level figures for these two income measures can be found in the [Fair Funding Allocation calculator](#).
7. Fire and Rescue Authorities and Combined Authorities with responsibility for fire services are excluded from both the Income Protection Floors. The Real Terms Fire Floor is explained later in this document.
8. The West of England Combined Authority have benefitted from the business rates retention system but do not provide services which are assessed as part of the Fair Funding Assessment. The Department will engage them regarding bespoke transitional arrangements.
9. For the City of London we are publishing indicative Settlement allocations for 2027-28 and 2028-29. These indicative allocations are a continuation of our consultation with the City and subject to further engagement. Following this engagement, we will consult on proposals later this year as part of the provisional Local Government Finance Settlement 2027-28. The City's indicative allocations have been calculated by applying a £50 million cap to the level of business rates growth in scope of income protection for 2027-28 and 2028-29.

### **Definition of income in 2025-26 for the purposes of Income Protection Floor**

10. Income protection uses income from 2025-26 as the comparator. That income is defined as the sum of the following for each council:
  - Revenue Support Grant
  - Business rates income as given in the 2025-26 [Business Rates Retention Income Baseline calculator](#)
  - Council tax requirement, excluding parish precepts as published in the [2025 Council Tax Levels statistics](#), rather than the estimates published in Core Spending Power at the 2025-26 Local Government Finance Settlement
  - Local Authority Better Care Grant
  - New Homes Bonus
  - Social Care Grant
  - Market Sustainability and Improvement Fund
  - Recovery Grant
  - Employer National Insurance Contributions Grant
  - Funding Floor
  - Grants rolled in
11. Unless otherwise specified, this information can be found in the [Core Spending Power figures](#) published alongside the 2025-26 Local Government Finance Settlement.
12. The calculation of City of London's 100% Income Protection Floor for 2027-28 and 2028-29 uses a different definition of 2025-26 income. For those years, City of London's 2025-26 income baseline will be reduced by £32,552,324. This reduction is a result of City of London's business rates income being capped at £50m above their baseline funding level in 2025-26. These indicative allocations are a continuation of our consultation with the City and subject to further engagement. Following this engagement, we will consult on proposals later this year as part of the provisional Local Government Finance Settlement 2027-28.

### **Definition of income in 2026-27 to 2027-28 for the purposes of Income Protection Floor**

13. The in-year income used to compare against the 2025-26 starting point for the purposes of transition funding is defined as the sum of the following for each council for the relevant year:
  - Revenue Support Grant
  - Baseline Funding Level
  - Council tax requirement
  - Local Authority Better Care Grant
  - Recovery Grant
14. This data is published in the Core Spending Power table published alongside the 2026-27 Local Government Finance Settlement.

### Calculation of 100% Income Protection Floor<sup>1</sup>

15. Any eligible authority whose income in 2026-27, 2027-28 and 2028-29 is lower than their income in 2025-26 will receive an amount equal to the difference between that year's income and their 2025-26 income:

$$100\% \text{ income protection}_{2026-27} = \text{income}_{2025-26} - \text{income}_{2026-27}$$

$$100\% \text{ income protection}_{2027-28} = \text{income}_{2025-26} - \text{income}_{2027-28}$$

$$100\% \text{ income protection}_{2028-29} = \text{income}_{2025-26} - \text{income}_{2028-29}$$

### Calculation of 95% Income Protection Floor<sup>1</sup>

16. Any eligible authority whose income in 2026-27, 2027-28 and 2028-29 is lower than 95% of their income in 2025-26 will receive an amount equal to the difference between that year's income and 95% of their 2025-26 income:

$$95\% \text{ income protection}_{2026-27} = \text{income}_{2025-26} * 0.95 - \text{income}_{2026-27}$$

$$95\% \text{ income protection}_{2027-28} = \text{income}_{2025-26} * 0.95 - \text{income}_{2027-28}$$

$$95\% \text{ income protection}_{2028-29} = \text{income}_{2025-26} * 0.95 - \text{income}_{2028-29}$$

17. The eligible upper tier authorities, as defined in para (3), are: City of London, Hammersmith and Fulham, Kensington and Chelsea, Wandsworth, Westminster and Windsor and Maidenhead.

## REAL TERMS FLOOR FOR FIRE AND RESCUE AUTHORITIES

### Eligibility for real terms floor for fire and rescue authorities

18. All fire and rescue authorities are eligible for the real terms floor.

### Income definition for real terms floor for fire and rescue authorities

19. The income definition for the real terms floor is the same as for the 95% and 100% income protection. The definition will exclude Mayoral Capacity Funding.

### Calculation of real terms floor for fire and rescue authorities

20. The real terms floor guarantees that after a cash terms increase of 3.8% in 2026-27, no eligible authority will see a real terms decrease in income compared to 2026-27:

$$\text{Real terms FRA floor}_{2026-27} = \text{income}_{2025-26} * 1.038 - \text{income}_{2026-27}$$

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<sup>1</sup> Any authority which is eligible for the 100% Income Protection Floor will receive a further transition payment to ensure that their Core Spending Power is at least as high as their 2025-26 CSP in each year of the multi-year settlement. Any authority which is eligible for the 95% Income Protection Floor will receive a further transition payment to ensure that their Core Spending Power is at least 95% of their 2025-26 CSP in each year of the multi-year settlement.

$$\text{Real terms FRA floor}_{2027-28} = \text{income}_{2025-26} * 1.038 * \frac{\text{GDP deflator}_{2027-28}}{\text{GDP deflator}_{2026-27}} - \text{income}_{2027-28}$$

$$\text{Real terms FRA floor}_{2028-29} = \text{income}_{2025-26} * 1.038 * \frac{\text{GDP deflator}_{2028-29}}{\text{GDP deflator}_{2026-27}} - \text{income}_{2028-29}$$

## RECOVERY GRANT FUNDING GUARANTEE

### Eligibility for Recovery Grant Funding Guarantee

21. Single tier and upper tier authorities in receipt of Recovery Grant in 2025-26 will be eligible for the Recovery Grant Funding Guarantee. Shire Districts in receipt of Recovery Grant in 2025-26 will not be eligible for the Recovery Grant Funding Guarantee.

### Income definition for Recovery Grant Funding Guarantee

22. Income for the purposes of the Recovery Grant Funding Guarantee will be the same as for the 100% and 95% income protection with the addition of:

23. For 2025-26:

- Children's Social Care Prevention Grant
- Domestic Abuse Safe Accommodation Grant

24. For 2026-27 to 2028-29:

- 100% income protection
- 95% income protection
- Homelessness, Rough Sleeping and Domestic Abuse Grant, excluding funding for Supported Housing and Renters Rights Act New Burdens
- Families First Partnership funding (within the Children, Families and Youth Grant)

### Calculation of Recovery Grant Funding Guarantee

25. The Recovery Grant Funding Guarantee will guarantee that all eligible authorities will see at least a 5% increase in their income in 2026-27 compared to 2025-26. In 2027-28 and 2028-29 they will receive at least 6% and 7% more respectively than in 2025-26:

$$\text{Recovery Grant Funding Guarantee}_{2026-27} = \text{income}_{2025-26}^{RG} * 1.05 - \text{income}_{2026-27}^{RG}$$

$$\text{Recovery Grant Funding Guarantee}_{2027-28} = \text{income}_{2025-26}^{RG} * 1.06 - \text{income}_{2027-28}^{RG}$$

$$\text{Recovery Grant Funding Guarantee}_{2028-29} = \text{income}_{2025-26}^{RG} * 1.07 - \text{income}_{2028-29}^{RG}$$

26. Each authority's total Recovery Grant Funding Guarantee over the years 2026-27 to 2028-29 will be capped at £35m. Where the cap applies to an authority their Recovery Grant Guarantee shall be £11,666,667 in each of the years 2026-27, 2027-28 and 2028-29.

## ADJUSTMENT SUPPORT GRANT 2026-27

27. We have listened to feedback and, as a result, have made technical changes to ensure that we more accurately reflect the councils' current income from local business rates pooling arrangements. The need for this change was highlighted by respondents including the Institute for Fiscal Studies. This technical adjustment has the practical effect of shifting money between authorities in an area towards councils responsible for social care, which is in line with our overall objective to get funding to where it is needed most.
28. To help councils adjust to this change, the government will provide a one-off Adjustment Support Grant in 2026-27 to authorities who would otherwise see their Core Spending Power reduce in 2026-27, compared to indicative allocations set out at the provisional Settlement. By protecting indicative 2026-27 Core Spending Power allocations as a whole, the Adjustment Support Grant also captures changes made to the Homelessness, Rough Sleeping and Domestic Abuse Grant to more accurately reflect how funding for joint bids is apportioned between local authorities, that would otherwise, for a small number of councils, reduce Core Spending Power allocations for 2026-27 as set out at the provisional Settlement.
29. The government is ensuring that any increases to the Homelessness, Rough Sleeping and Domestic Abuse Grant and the Recovery Grant Uplift do not offset protection from pooling changes. Allocations for the Adjustment Support Grant were set out alongside the final Settlement.

### Eligibility for Adjustment Support Grant

30. Any authority that would otherwise have seen a reduction in their 2026-27 Core Spending Power from the technical adjustment to pooling or from a net decrease in Homelessness, Rough Sleeping and Domestic Abuse Grant between provisional and final settlement.

### Calculation of Adjustment Support Grant

31. The Adjustment Support Grant will ensure that no authority will have a lower Core Spending Power in 2026-27 at final settlement than at provisional settlement. It will ensure that increases to Homelessness, Rough Sleeping and Domestic Abuse Grant and the Recovery Grant Uplift do not offset protection from pooling changes and that any authority seeing a net reduction in Homelessness, Rough Sleeping and Domestic Abuse Grant is protected:

$$\begin{aligned} \text{Adjustment Support Grant}_{2026-27} = & \\ & CSP_{2026-27}^{\text{provisional}} - CSP_{2026-27}^{\text{final}} + \text{Recovery Grant Uplift}_{2026-27} + \\ & \text{maximum}(\text{Homelessness, Rough Sleeping and Domestic Abuse}_{2026-27}^{\text{final}} - \\ & \text{Homelessness, Rough Sleeping and Domestic Abuse}_{2026-27}^{\text{provisional}}, 0) \end{aligned}$$